

Message Text

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SUBJECT: GOG ANNOUNCES NEW ECONOMIC MEASURES

REF: (A) ATHENS 9074, 12/23/74; (B) ATHENS 8831,
12/12/74.

1. FOLLOWING JAN 10 CONFERENCE OF GOG ECONOMIC MINISTERS
PRESIDED OVER BY PRIME MINISTER CONSTANTINE CARAMANLIS, THE
PM AND MINISTER OF COORDINATION AND PLANNING PAPALIGOURAS
ANNOUNCED OUTLINE OF NEW ECONOMIC MEASURES, MOSTLY FISCAL IN
NATURE. CARAMANLIS REITERATED WARNING OF DECEMBER 11
PARLIAMENTARY ADDRESS THAT 1975 WOULD BE A YEAR OF SACRIFICE,
BUT EXPRESSED OPTIMISM THAT 1976 WOULD BE STARTING POINT
FOR RAPID ECONOMIC DEVELOPMENT AND UNOBSTRUCTED SOCIAL
PROGRESS. HE STATED THAT SPECIFIC DETAILS OF MEASURES WOULD
BE SPELLED OUT IN DRAFT LAWS AND DECISIONS OF APPROPRIATE
MINISTRIES AND CURRENCY COMMITTEE LATER THIS MONTH.
PAPALIGOURAS DESCRIBED 1975 AS A "YEAR OF AUSTERITY," A YEAR
TO RESTORE ECONOMIC ORDER, AND ONE IN WHICH GOG WILL ATTEMPT
"REASONABLE" LIMITATION FOREIGN EXCHANGE EXPENDITURES. HE
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STRESSED NEED TO STIMULATE ECONOMY, AND EMPHATICALLY DENIED

RECENT RUMORS OF PLANS FOR DRACHMA DEVALUATION.

2. TAX MEASURES: (A) INCOME TAX REFORM - LOWER AND MIDDLE INCOME GROUPS (UP TO 300,000 DRACHMAS/YEAR) WILL BENEFIT FROM REDUCTION OF 1.1 TO 14.3 PERCENT. HIGHER INCOME BRACKETS WILL FACE INCREASE OF 1.4 TO 11 PERCENT (THE HIGHEST RATE, FOR INCOMES OVER 2 MILLION DRACHMAS, WILL NOW BE 60 PERCENT). TAX-FREE NET INCOME WILL BE RAISED FROM 5,000 TO 20,000 DRACHMAS; FARMERS' TAX FREE GROSS INCOME FROM 140,000 TO 250,000 DRACHMAS. INDIVIDUALS WITH INCOME FROM SALARY ONLY ARE TO BE EXEMPT FROM INCOME TAX IF UNDER 100,000 DRACHMAS (UP FROM 60,000 DRS). DEDUCTIONS FOR DEPENDENTS WILL ALSO BE INCREASED.

(B) NEW PROPERTY TAX - PROPERTY VALUED AT OVER 5 MILLION THIS IS FIRST TIME PROPERTY TAX HAS BEEN USED IN GREECE TO DRACHMAS WILL BE TAXED BETWEEN 0.5 AND 1 PERCENT. THIS IS FIRST TIME PROPERTY TAX HAS BEEN USED IN GREECE TO EMBASSYS KNOWLEDGE. TRANSFER TAX WILL REMAIN IN EFFECT.

(C) INDIRECT TAXES - CERTAIN INCREASES WILL BE ANNOUNCED SOON. BURDEN OF SUCH READJUSTMENT TO BE BORNE BY HIGH INCOME GROUPS.

(D) SECGEN MINISTRY COORDINATION KONTAGEORGIS AND DIRGEN KEPA VOLOUDAKIS INDICATED IN CONVERSATION WITH EMBOFF THAT OBJECTIVE OF TAX MEASURES IS TO RAISE DISPOSABLE INCOME OF GROUPS WITH GREATER MARGINAL PROPENSITY TO CONSUME, WHILE SIMULTANEOUSLY INCREASING TAX REVENUE. (THEY ALSO NOTED CERTAIN POLITICAL AND SOCIAL BENEFITS.)

3. BUDGET - 1975 REGULAR BUDGET TO BE BALANCED AT 140 BILLION DRACHMA LEVEL, 33 PERCENT HIGHTER THAN IN 1974. PUBLIC INVESTMENT BUDGET WILL BE SET IN 1975 AT ABOUT 27 BILLION DRS., UP FROM ESTIMATED 23 BILLION DRS FOR 1974. NO OTHER DETAILS ANNOUNCED. DEPUTY GOV BANK OF GREECE KYRIAZIDES MENTIONED TO EMBOFF THAT EFFORT WILL BE MADE TO FINANCE LOCALLY AS MUCH OF PUBLIC INVESTMENT BUDGET AS POSSIBLE. KONTAGEORGIS STATED THAT MIN. COORDINATION EXPECTS TO RELEASE LIMITED OFFICIAL USE

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DETAILS OF 1975 BUDGET IN LATE JANUARY OR EARLY FEBRUARY.

4. CREDIT POLICY - CURRENCY COMMITTEE TO ALLOW CREDIT INCREASE CONSONANT WITH BUSINESS REQUIREMENTS, BUT WILL DISCOURAGE FINANCING FOR IMPORTS OR RISKY VENTURES. THERE WILL BE NO CEILING ON FINANCING OF EXPORTS OR INVESTMENT LOANS TO INDUSTRIAL AND HANDICRAFT ENTERPRISES. KYRIAZIDES STATED THAT RESERVE REQUIREMENTS, WHICH RELAXED IN THIRD

QUARTER OF 1974 TO MEET LIQUIDITY SQUEEZE, WILL BE TIGHTENED SOMEWHAT BUT GENERAL THRUST OF POLICY, I.E., TO STIMULATE ECONOMY, WILL CONTINUE.

5. BALANCE OF PAYMENTS - PAPALIGOURAS INDICATED THAT 1975 BALANCE OF PAYMENTS DEFICIT BEFORE OFFICIAL BORROWING WOULD BE LARGE. GOG WILL INCREASE EFFORTS TO OBTAIN LOANS FROM INTERNATIONAL ORGANIZATIONS (IMF OIL FACILITY LOANS, IBRD FINANCING, EUROPEAN INVESTMENT BANK CREDITS) AND BILATERAL LOANS FROM OECD COUNTRIES, GOG WILL ATTEMPT "REASONABLE" LIMITATION FOREIGN EXCHANGE EXPENDITURES, INCLUDING STEPS TO REDUCE OIL AND AGRICULTURAL IMPORTS. KYRIAZIDES INDICATED THAT ADJUSTMENT OF EXCISE TAXES (TO BE ANNOUNCED SOON) WOULD BE ONE TOOL TO EFFECT LIMITATION, AND SPECIFICALLY CITED ADJUSTMENT OF CONSUMPTION TAX ON PETROLEUM PRODUCTS.

6. PUBLIC UTILITY INVESTMENTS - PROGRAMS OF GOVERNMENT AGENCIES AND UTILITIES, ESPECIALLY PUBLIC POWER CORPORATION AND HELLENIC TELECOMMUNICATIONS ORGANIZATION, ARE UNDER REVIEW.

7. AGRICULTURAL PRICES - WILL BE SUPPORTED AND MAINTAINED AT LEVELS COMPARABLE TO THOSE PREVAILING IN THE EEC.

8. HOUSING LOANS - A PROGRAM WILL BE INTRODUCED FOR WORKERS AND FARMERS, AND LOWER INCOME GROUPS GENERALLY.

9. COMMENT: KONTOGEORGIS, VOLOUDAKIS AND KYRIAZIDES ALL INDICATED THAT ADDITIONAL MEASURES WOULD BE ANNOUNCED WEEK OF JAN 13. KYRIAZIDES PRIVATELY OUTLINED ARGUMENTS AGAINST DEVALUATION IN COMMENTING ON PAPALIGOURAS PUBLIC REJECTION OF DEVALUATION RUMORS, AND REPEATED REMARKS IN REFTEL A ON ADVANTAGES OF SWITCHING VALUATION OF DRACHMA FROM DOLLAR TO EUROPEAN CURRENCY BASIS.

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